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Mr. Martin McIntyre
General Manager
San Luis Water District
P.O. Box 2135
Los Banos, California 93635

Subject: Long-Term Approval for Meyers Farm Water Banking Project, Letter Agreement
Number 06-WC-20-3478

Dear Mr. McIntyre:

This is in response to the request and proposal submitted on behalf of San Luis Water District (District) and one of your landowners, Marvin Meyers (Meyers Farm), for approval to deliver and bank up to 35,000 acre-feet of Central Valley Project (CVP) water in the Meyers Farm Water Banking Project (Meyers Bank) for a period of 25 years, beginning April 1, 2006. The purpose of the banking action is to store water that would later be extracted during dry years and returned to the District by an exchange with the Bureau of Reclamation for other CVP water. The CVP water would be delivered to the Meyers Bank for storage during the fall and winter when there is excess conveyance capacity in the Delta Mendota Canal.

Since 1998, Meyers Farm has been conducting a pilot water banking project on property located on the east and west sides of the Mendota Pool, outside of the District's service area. CVP water has been delivered to Meyers Bank on an annual basis, pursuant to permission granted by Reclamation, in accordance with Article 6 of the District's water service contract.

Reclamation supports conjunctive use and groundwater banking programs and the benefits such programs provide for managing water supply reliability. This is recognized in Article 3(d) of the proposed long-term contract with the District, which states in part:

"...Groundwater recharge programs, ground-water banking programs, surface water storage programs, and other similar programs utilizing Project Water or other water furnished pursuant to this Contract conducted outside the Contractor's Service Area may be permitted upon written approval of the Contracting Officer, which approval will be based upon environmental documentation, Project Water rights, and Project operational concerns. The Contracting Officer will address such concerns in regulations, policies, or guidelines."

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Reclamation has not yet developed the necessary regulations, policies, or guidelines referenced in Article 3(d) of long term renewal contracts. We are, however, in the process of developing guidelines for groundwater banking. A program involving the banking of CVP water outside the CVP contractor's service area requires a detailed accounting, monitoring, and reporting program. The use of CVP water for groundwater banking outside the contract service area raises a number of administrative and enforcement issues. Reclamation has therefore carefully considered the relationships among state and Federal law and policy involved in groundwater banking with CVP water, as well as how restrictions applicable to CVP water regarding place of use, manner of use, repayment and Reclamation Reform Act acreage limitation will be applied to groundwater banking.

To avoid further delay in processing your request, we have determined that we can approve your proposal to bank up to 35,000 acre feet of CVP water, for a 25 year period, effective April 1, 2006, prior to having banking guidelines in place. This approval may be revised upon completion of the final guidelines or other criteria, regulations, or policies, to be consistent with such final criteria, regulations, policies, or guidelines, or as may be required by the terms and conditions of the District's renewed water service contract.

The Proposal

We have reviewed the documentation submitted to our South-Central California Area Office in Fresno in support of your request. As we understand your proposal, the District is requesting Reclamation's approval to bank a portion of the District's CVP supply and other purchases of CVP water, pursuant to a banking arrangement between the District and Marvin Meyers, as owner and operator of the Meyers Bank. The CVP water available for banking would be delivered to the Mendota Pool via the Delta Mendota Canal (DMC). The Meyers Bank would divert this water from the Fresno Slough branch of the Mendota Pool and pump it into surface storage and recharge ponds. The Meyers Bank would divert and store available surface water during winter months in a shallow aquifer adjacent to the Pool.

Upon withdrawal from the Meyers Bank, the previously banked CVP water (less 5 percent for losses at the Meyers Bank) will be delivered to CVP contractors that can be served from the Mendota Pool, in exchange for the same amount of CVP water delivered to eligible lands within the District. This action will require a separate Exchange Agreement between the District and Reclamation. All returns and exchanges of banked water will be subject to the conditions of that agreement as well as those set forth herein. A request for authority to negotiate the Exchange Agreement has been submitted to Reclamation's Denver office and a response is expected in the next few weeks. In addition, a separate three way Exchange Agreement among Reclamation, the District and Marvin Meyers will be developed for the return and exchange of non-Project water deposited in the Meyers Bank.

Environmental Documentation for the Meyers Farm Water Banking Project

Several Environmental Assessments pursuant to the requirements of the National Environmental Policy Act (NEPA) have been completed, the most recent being a Finding of No Significant Impact (FONSI-05-09) on May 9, 2005 entitled "Meyers Farm Water Banking Project". The May 2005 Environmental Assessment (EA) for the long-term Meyers Bank project analyzes the impacts of the project for the 25 year period. The EA will need to be supplemented if there are any changes to the project or the Meyers Bank operations.

Other relevant and related environmental documents are as follows:

(EA 04-68). Groundwater Storage of up to 5,000 acre-feet of CVP Water Outside the San Luis Water District's Service Area, Mendota CA; Finding of No Significant Impact (04-68), Groundwater Storage of up to 5,000 acre-feet of CVP Water Outside the San Luis Water District's Service Area, Mendota CA.

(EA 03-90). Groundwater Storage of up to 5,000 acre-feet of CVP Water Outside the San Luis Water District's Service Area, Mendota CA. (Reclamation, 2003a); Finding of No Significant Impact (03-90). Groundwater Storage of up to 5,000 acre-feet of CVP Water Outside the San Luis Water District's Service Area, Mendota CA. (Reclamation, 2003b).

(EA 02-73). One-time, Temporary Storage of Up to 4,000 acre-feet of Water Outside of the San Luis Water District Service Area in the Meyers Farms Groundwater Storage and Retrieval Project, Firebaugh, CA. (Reclamation, 2002c); Finding of No Significant Impact (02-72); One-time Temporary Storage of 4,000 acre-feet of San Luis Water District's CVP Water Out of the Service District. (Reclamation, 2002d);

Terms and Conditions of Approval

Reclamation approves the proposal for the District to bank up to 35,000 acre feet of CVP water in the Meyers Bank, for a period of 25 years, effective April 1, 2006, subject to the following terms and conditions:

1. The amount of CVP water to be banked at Meyers Bank is not to exceed 35,000 acre feet at any one time. Reclamation concurs that a 5 percent loss rate on each acre foot of water banked is acceptable. In the event the District wishes to exceed this amount, additional environmental documentation will be required and Reclamation will consider an amended or revised approval letter. The term of this approval may be extended by the Contracting Officer for a reasonable period beyond the 25 year term to allow for the return and exchange of CVP water in the Bank at the expiration of the 25 year term.
2. Requests to bank CVP water shall be submitted in advance to the South Central California Area Office (SCCAO), stating the amount of CVP water to be stored by the District. Water

delivered to the Meyers Bank will be paid for by the District as if delivered to the District, plus any applicable incremental costs associated with the conveyance of water to the Mendota Pool.

4. When the District proposes to extract water from the Meyers Bank, another request will be submitted to Reclamation for the return and exchange of the extracted water for CVP water delivered to the District, pursuant to the Exchange Agreement between Reclamation and the District. The extraction, return and exchange of banked CVP water for current year CVP supply will be accomplished and paid for in accordance with the Exchange Agreement. The Exchange Agreement will also provide for the recovery of any Reclamation costs incurred in exchanging banked non-CVP water for current year CVP water.

5. The District will notify Reclamation in advance and in writing, pursuant to the specific terms of the Exchange Agreement, when requesting to extract, return and exchange a quantity of the banked CVP water or banked non-CVP water. Reclamation will review the request to ensure that it is within the scope of the Exchange Agreement, this approval letter and applicable environmental documentation, and to ascertain whether there are any potential impacts to the Central Valley Project Operations or other CVP Contractors.

6. It is anticipated that water would not be extracted from the Meyers Bank on an annual or regular basis. During wet and above normal water years, there generally will be no need to extract water. Water stored in the Meyers Bank would be extracted only after other supplemental water supplies are exhausted. This extraction would most likely occur during dry and critically dry years but could also occur during below normal years.

7. Reclamation will require the District to pay the applicable rate for the use of facilities involved in the return and exchange of CVP water to the District as provided by the Exchange Agreement.

8. Reclamation will review the status of the banked CVP water at the end of each year of Meyers Bank operation to determine if any additional charges are owed, pursuant to this approval or the Exchange Agreement. Such payments, if determined to be owed, will reflect the applicable water rate for the year in which the water was delivered to the District, with interest accrued from the date of delinquency as determined by the applicable provision of the District's water service contract.

9. Reporting requirements will be required to ensure compliance with the acreage limitation provisions of Reclamation Law for any exchanged water delivered to the District, unless stated otherwise in the Exchange Agreement. All CVP water extracted from the Bank must be used within the authorized CVP water right permitted place of use. Reclamation will review the status of the balance of CVP water in the Meyers Bank account periodically, to determine if any action pursuant to this condition has been triggered.

10. The use of Federal facilities such as the San Luis Canal for conveyance of the water exchanged by Reclamation must be approved by the Contracting Officer and in accordance with the Exchange Agreement between the District and Reclamation.

11. Water quality requirements will be imposed on all extracted groundwater introduced into Mendota Pool, as described in the Monitoring Criteria enclosed hereto as Exhibit A.

12. A monthly report of the amount of CVP water stored in the Meyers Bank, adjusted for losses, and a description of the source of all water supplies delivered to the Meyers Bank will be provided to Reclamation. Reclamation will require an annual summary report of bank operations at the end of the 2006 water year and each year thereafter. These reports may be based on records maintained by the Meyers Bank but are the responsibility of the District.

13. CVP water withdrawn from the Meyers Bank must be used on lands located in the District within the District's contract service area. In those cases where banked CVP water is withdrawn for purposes other than District use, such use will be subject to the water transfer provisions of CVPIA, subject to compliance with applicable transfer provisions of the Central Valley Project Improvement Act (CVPIA). Please provide a monthly breakdown and accounting of all waters delivered to the District pursuant to the Exchange Agreement.

In summary, subject to compliance with your water service contract as it exists now or as renewed and the above described terms and conditions, Reclamation hereby approves your proposal to bank up to 35,000 acre feet of CVP water for 25 years, effective April 1, 2006, subject further to any revisions in monitoring requirements or as required by Reclamation's issuance of guidelines, policies or regulations affecting your banking program. For additional information, contact Sheryl Carter of the South Central Area Office at 559-487-5299. Please sign and return one original copy of this letter to Michael Heaton in the Regional Office, with a certified copy of a Board resolution authorizing approval of this letter. If you have questions, you may call Mr. Heaton at 916-978-5556.

Sincerely,

FOR

(sgd) John F. Davis

Kirk C. Rodgers
Regional Director

On behalf of San Luis Water District, I concur with the foregoing.

cc: Mr. Marvin Meyers
P.O. Box 457
Firebaugh, California 93622

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